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The City's Changing Uses of HOME Funds

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SUMMARY

OVER THE PAST several years, the city has received an average of $125 million annually through the federal HOME Investment Partnership Program, usually referred to as the HOME grant. The program provides funds through a federal block grant to build or rehabilitate housing, to help finance home purchase or rehabilitation by individuals, and to support rental assistance. HOME-funded units must all be occupied by low-income households, in accordance with federal and local rules. IBO's review and analysis of the city's use of HOME funds finds:

- New York City builds or renovates about 2,000 apartments a year using HOME funds.
- Although federal rules require the city to spend $1 of local, state, or private funds for every $8 it receives in HOME funds, New York's funding match routinely exceeds this requirement.
- The portion of HOME funds used to renovate city-owned housing has been falling sharply, from $88.1 million in 1998 to $48.8 million in 2004.
- The city is increasingly using HOME funds for housing the homeless and preservation of privately owned apartments.

Under a new component of the HOME program—the American Dream Downpayment Initiative—the city will increase its spending on homeownership assistance, although the city will receive a smaller share of this new federal funding than it does of the original HOME program.

Unlike some other federal housing programs, funding for HOME has remained relatively stable. With the amount of HOME funds used for renovating city-owned housing diminishing along with the supply of these units, policymakers and advocates will have the opportunity to redirect these funds and reshape portions of city housing policy.

INTRODUCTION

HOME Program Rent Limits

Maximum Income	Pct. of Units	Tenant Income, Family of 4	Rent Definition	HOME Rent, 3 Bedrooms	Pct. of Income Paid in Rent
Up to 50 pct. of AMI	20%	$31,400	30% of 50% of AMI	$816	31%
Up to 60 pct. of AMI	70%	37,680	30% of 65% of AMI	1,027	33%
Up to 80 pct. of AMI	10%	50,240	30% of 65% of AMI	1,027	25%

SOURCES: IBO, Department of Housing and Urban Development.

Over the last two decades, much of city spending on housing has been devoted to the maintenance, rehabilitation and privatization of the city-owned *in rem* housing stock. As the number of *in rem* units in the city's portfolio has declined, housing advocates have sought to ensure that these funds will be reallocated to other housing preservation and development initiatives. Much of this attention has focused on the federally funded Community Development Block Grant (CDBG).

CDBG funds can be used for a wide variety of purposes, however, including economic development and social service delivery, as well as housing. In contrast, the federal HOME Investment Partnership Program (known as the HOME grant), which also has been used to rehabilitate the *in rem* stock, can only be used for housing. The HOME grant—although smaller than CDBG—may therefore have more potential for future housing initiatives, particularly new construction. In calendar year 2004, the city received $128.6 million in HOME funds.

In this analysis, IBO looks at the structure of the HOME program, city uses of HOME funds, and how these uses have changed in recent years. As the funding used for *in rem* rehabilitation has fallen, an increasing share of HOME funds has been used for housing the homeless and preservation of privately owned apartments.

GRANT STRUCTURE

HOME is a federal block grant that provides funds to localities to build or rehabilitate housing, to help finance home purchase or rehabilitation by individuals, and to support rental assistance. HOME-funded units must all be occupied by low-income households, in accordance with detailed federal and local rules.

The total federal appropriation for HOME in the last several years has been about $1.9 billion. New York City consistently receives 6.7 percent to 6.9 percent of the national total, or about $125 million each year. The allocation formula reflects a number of criteria, including poverty rates, age and condition of the housing stock, and cost of construction.

If funds are used to assist homeownership units, all households purchasing subsidized units must have incomes below 80 percent of area median income, or AMI, (currently $50,250 for a family of four in New York City). The income restrictions for rental projects are more complex. Each project must have at least 20 percent of its HOME assisted units occupied by households earning less than 50 percent of area median ($31,400 for a family of four) with the remaining units occupied by households earning less than 80 percent of median. There is also an overarching requirement that no more than 10 percent of all rental households in a grantee's program can have incomes over 60 percent of area median income ($37,680 for a family of four).

The city has effectively collapsed the two requirements so that all HOME projects must have at least 20 percent of the assisted units targeted to households earning below 50 percent of median and no more than 10 percent of their units targeted to households earning more than 60 percent of median income. The remaining units (as little as 70 percent of the project, but often the full 80 percent) are targeted to households earning less than 60 percent of median.

The federal Department of Housing and Urban Development (HUD) sets "high" and "low" maximum HOME rents for each project—low rents, charged to households earning less than 50 percent of AMI, cannot exceed 30 percent of the income of a household at 50 percent of AMI. High rents, charged in the remaining units, cannot exceed 30 percent of the income of a family earning 65 percent of AMI. HUD also adjusts the top rents by unit based on assumptions about the size of a family living in different size units.

The affordability period is determined by the amount of HOME funds invested in a unit and the scope of the work done. At one end of the spectrum, rehabilitation of existing housing using less than $15,000 per unit in HOME funds must be kept affordable for five years. At the other end, newly built housing must remain affordable for 20 years.

Because HOME is designed to pay for substantial—and time consuming—construction projects, localities are given two years to commit funds to projects, and a total of five years to actually spend the money.

Matching Funds. The city easily complies with HOME rules regarding matching funds and allocation of funding to nonprofit organizations. Local communities generally are required to match their HOME funds with $1 in non-federal (state, local, or private) money for every $4 of HOME funds. The city consistently meets the HUD definition of "fiscal distress," because the poverty rate in the city is greater than 125 percent of the average national poverty rate. As a result, the city's match requirement is reduced to $1 for every $8 in HOME funds. In theory, the reduction in the match could "save" the city about $16 million annually, but the city-funded portion of relevant housing programs invariably exceeds even the 1 to 4 match level.

Similarly, HOME rules require that localities set aside 15 percent of their total funds for nonprofit organizations. The nonprofit housing development sector is well-developed in New York City, and this threshold generally does not pose a problem for the city.

NEW YORK'S USE OF HOME FUNDS

The Department of Housing Preservation and Development (HPD) typically assists about 2,000 units per year with HOME funds. Over the last several years, a significant majority of the city's HOME funds have been used for the rehabilitation and privatization of the city-owned housing stock, primarily in the Neighborhood Redevelopment Program and the Neighborhood Entrepreneurs Program. Although *in rem* disposition remains the largest use of HOME funds, HPD is using an increasingly significant share for supportive housing.

Over the last five calendar years, New York City's share of the federal HOME grant has grown 23 percent, although the 2004 grant was actually slightly less than the 2003 grant. Because it can be difficult to meet income distribution requirements when funding the rehabilitation of occupied units—since HPD must accommodate the actual income distrubtion of exsiting households—actual city spending of grant funds is more variable. Since the city has five years to spend grant funds, at times uncommitted HOME funds are rolled forward to meet new needs. Over the six years 1999 through 2004, IBO estimates that the city will have spent almost exactly 100 percent of the total HOME money for that period.

The budgeted HOME spending for 2004 is more than 12 percent lower than actual spending for 2003. This is in part a reflection of the variable nature of HOME spending, as described above. In addition, HPD includes contingency funds in the budgets for capital projects to cover cost overruns. When the contingency funds are not needed, HPD takes the surplus out of the budget and reprograms the funds for other capital projects. In 2004, the agency had $23 million in surplus contingency HOME funds and has reprogrammed about $18 million to be spent in that year (included in the table on the city's use of HOME funds). The remaining $5 million will be used at a later date.

Changing Uses. The city is changing the way it uses its HOME funds. The portion of the grant allocated to *in rem* disposition has declined sharply in recent years, from $88.1 million in 1998 to $48.8 million in 2004. In contrast, supportive housing accounts for an increasingly large share of total spending. In the January 2003 Capital Commitment Plan, the city extended the deadline for completing the rehabilitation of the remaining *in rem* housing stock and returning the properties to private ownership from 2007 to 2011. Although total funding for *in rem* disposition programs remains roughly the same, it is now spread over the next eight years, rather than four years. As a result, the planned annual spending for *in rem* privatization has dropped, and these funds—including HOME grant funds—have been reallocated to other HPD programs.

In 1999, 82 percent of total HOME spending was for *in rem* disposition, and 6 percent went to the Supportive Housing Loan

New York City's Use of HOME Funds: Expense Budget Spending and Capital Commitments

Dollars in millions

	1999	2000	2001	2002	2003	2004
In Rem Disposition	$88.1	$74.4	$83.3	$89.4	$75.2	$48.8
Supportive Housing	6.5	6.1	22.3	21.1	23.2	29.8
Preservation	7.1	6.8	20.7	9.6	15.4	12.5
Other	5.9	6.4	6.8	7.0	8.6	9.3
Large Scale Redevelopment	-	-	-	-	-	7.1
In Rem Operations	0.2	0.0	-	-	-	-
TOTAL	**$ 107.8**	**$ 93.8**	**$ 133.1**	**$ 127.0**	**$ 122.5**	**$ 107.5**

SOURCES: IBO, Department of Housing Preservation and Development.
NOTES: "Other" includes research, policy, planning, administration, fringe benefits, fair housing, and tax credit monitoring. All fringe benefit figures are budgeted, not actual. 2004 is budgeted.

Program, which funds the construction of single room occupancy facilities for homeless and other people with special needs. In 2003, *in rem* disposition accounted for 59 percent of total HOME spending, and supportive housing for 19 percent.

The adopted fiscal year 2005 expense and capital plans call for a combined $158 million in HOME spending (including fringe costs). This significant jump relative to 2004 is in part a reflection of the uneven nature of HOME spending. More importantly, the pattern of planned spending continues the trend described above—55 percent of the total is for *in rem* disposition, and 25 percent is for the Supportive Housing Loan Program.

To a lesser degree, there also has been an increase in the use of HOME funds for preservation programs that do not involve the *in rem* stock. Most of the HOME funds used for preservation of privately owned housing are allocated to the Participation Loan Program, which provides low-cost rehabilitation loans for buildings with at least 20 units, and the Third Party Transfer Program, under which the city provides rehabilitation funding for buildings in tax arrears that are transferred to new ownership. In 2001, HPD devoted $10 million in HOME funds to the Article 8A program for rehabilitation of Mitchell-Lama buildings, which boosted total preservation spending for that particular year.

In 2004, HPD began to use HOME funds for the Cornerstone Program, which builds multi-family housing on city-owned land. While Cornerstone projects have not generally had an HPD subsidy, in projects where the agency targets a lower income level the use of HOME funds becomes an added financing option.

AMERICAN DREAM DOWNPAYMENT INITIATIVE

In the 2003 federal budget, Congress and the Bush Administration funded a new program, the American Dream Downpayment Initiative (ADDI) that will be administered as a part of the HOME grant. The availability of these funds will significantly increase HPD's spending on homeownership assistance, and may free up some CDBG funds for other uses.

ADDI provides localities with funding to make grants or loans to low-income, first-time homebuyers. Households can earn no more than 80 percent of AMI ($50,250 for a family of four in New York City), and can receive up to the greater of 6 percent of the purchase price or $10,000.

City's Smaller Share. HUD announced on June 2, 2004 that New York City would receive $4 million from federal fiscal year 2003 and $4.7 million for 2004. The formula for allocating ADDI funds is based on the percentage of low-income renters in a jurisdiction. The city is receiving a somewhat smaller share of the ADDI funds—5.4 percent—than it does of the HOME grant as a whole, which is allocated based on a formula that includes factors such as age and quality of the housing stock, rental vacancy rates, overcrowding, local construction costs, and rent burdens. Although not all of these factors would be pertinent for allocating a homeownership assistance grant, if the standard HOME formula had been used, the city would have received $1.3 million more in ADDI funds in 2004.

HPD's most recent budget does not include the new ADDI funds, although the city has released an amendment to its Consolidated Plan which allocates the ADDI money to the Mayor's HomeFirst Down Payment Assistance Program ($6.1 million) and the Employer-Assisted Housing Down Payment Assistance Program ($2.7 million). Both of these initiatives are currently funded with community development funds ($2.5 million and $1 million respectively for 2005). It is not clear whether the ADDI money will replace or supplement the CDBG funding. In either case, it would represent considerable growth in both programs.

CONCLUSION

Over the next eight years, as HPD completes the privatization of the city-owned housing stock, an increasingly large share of the federal HOME grant will be available to support other housing programs.

Unlike some other federal housing programs, funding for HOME has remained relatively stable in recent years. Furthermore, as the supply of city-owned housing declines, HPD has begun to shift its HOME funds into a variety of alternative programs, such as supportive housing and preservation of privately owned units. There will be more of these funds available for reallocation in the future, presenting an unusual opportunity for policy makers and advocates to reshape city housing policy.

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